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BOSNIA AND HERZEGOVINA MANAGEMENT COMPETENCIES FOR ACCEPTING EU FUNDS

**CAN EU FUNDS HELP IN DEVELOPING BOSNIA AND
HERZEGOVINA ECONOMY, AND HOW TO MAKE THEM
AVAILABLE TO BUSINESS ENTITIES**

JEL classification: F02

Abstract

The main question the paper wants to answer is can EU funds help in developing B&H economy, and how to make them available to business entities. Bosnia and Herzegovina is one of the least developed countries in Europe, and it is a country that has not progressed when it comes to transition process and the EU accession. The conducted research on management in companies (corporate management), on officials in government bodies and parliamentary parties (state management), and also on students, point to possible solutions; how to stop the negative trends in business, employment and poverty, as well as how to speed up the process of the Euro Atlantic integration of B&H. One of the basic results of this research concludes that B&H presence in Europe is not a problem, but the fact that Europe (its value, social and economic systems) is not present in Bosnia and Herzegovina. Structural reforms and faster transition can create conditions for a faster economic development, and using EU funds for those purposes and (especially) for economic

development can simultaneously be a motivation for a faster social and economic transition and the accession of B&H to the EU. Management in private companies are undoubtedly oriented in that direction, they expect the right preconditions and environment in order to be able to apply for EU funds. Those possibilities will mostly depend on the capability and efficiency of the state management¹. Therefore, there must be a persistent program for increasing the efficiency of the state management in B&H and for speeding up the EU accession process.

Key words: *Stabilisation and Association Agreement, EU funds, IPA, EU programs 2014-2020 (Cosme, Europe for Citizens, Horizon 2020, Erasmus plus), state management and corporate management*

1. STABILISATION AND ASSOCIATION AGREEMENT (SAA)

Economic development in B&H can be evaluated based on the following data. Gross domestic product (GDP) was 13.445 billion euro in 2014², and GDP per capita was 3.508 euro (or 4 700 \$). The cost of exported goods amounted to the value of 4.286 billion euro, while imported goods were estimated to 7.756 billion euro. There was a deficit in foreign trade amounting to 3.472 billion euro. Public debt amounted to 5,3 billion euros, and external debt was 3, 6 billion euros. Average net salary of the employed was 423 euro, employment rate was 31, 7% while unemployment rate equalled 27, 5%. B&H is officially pro-European, and the first step towards the EU is the enforcement of the Stabilisation and Accession Agreement (SAA). The enforcement is expected to start on 1st June 2015. SAA represents a basic framework of the EU politics towards B&H and opens the possibility of becoming an EU member state.

The agreement offers great support but also sets certain political and economic preconditions, with great emphasis on regional cooperation. B&H must balance its political, economic and institutional development based on EU principles and values. For these purposes the EU uses several instruments in order to strengthen political, economic and institutional relations needed to prepare for the EU membership. Those are European Partnership, financial and technical support and other EU programmes, as well as political dialogue, which includes cooperation between the judiciary system and internal affairs, and cooperation in the context of Common Foreign and Security Policy.

Besides general principles, the SAA provisions include agreements on cooperation and mutual obligations in areas also related to economy. The SAA also includes appropriate annexes and protocols which are used to improve the

¹ The management of public institutions

² EUR=1,955830 KM

cooperation and relations, and support the enforcement of the agreement and accession process. Provisions of the Temporary Agreement are also included in the SAA, while the Temporary Agreement was signed to avoid the long ratification process in all member states. The goals of the SAA are the development of political dialogue, the beginning of gradual coordination between national judicial system and *acquis communautaire*, the promotion of economic relations, gradual development of free trade zone and motivating regional cooperation in the context of stabilisation and accession process. The agreement gives the signatory states the status of a potential membership candidate, and the provisions of the European Partnership (enforced by the EU summit in Solun in 2004) have established short-term and medium-term priorities as a list of obligations which will be used to evaluate the progress of B&H towards the EU.

2. FINANCIAL SUPPORT

Financial support for the activities in the process of accession is provided by the IPA programmes (Instrument for Pre-accession Assistance) which were established by the EU Council Regulation on 17 July 2006, for the period from 2007 to 2013. IPA instrument is a part of the package of EU foreign affairs which is used to rationalize and simplify the procedure and improvement of coordination of EU activities in the process of accession. The goal is the inclusion of all the support activities in an individual framework and the unification of regulations. IPA has replaced former support instruments such as: Phare, ISPA, SAPARD, CARDS, and Turkish accession fund. IPA instruments foresees two groups of users with special emphasis on potential candidate states. IPA helps them to prepare for candidacy by continuing with the similar support components such as CARDS, and it tries to assist candidate states in the preparation for the EU membership. The IPA instrument is made up of five components; potential candidate countries are eligible only for two components, and candidate countries are eligible for all five components of IPA. These components refer to the assistance for transition and institution building, includes help for regional and cross-border cooperation, support for the regional (economic) development, human resources and rural (agricultural) development.

3. AVAILABLE POSSIBILITIES OF USING FUNDS FOR B&H

Considering the current status it has in the EU, Bosnia and Herzegovina has possibilities of using resources from IPA funds and from the EU Programme 2014-2020.

3.1. Possibilities of using IPA funds

Bosnia and Herzegovina can use IPA funds for conducting reforms during the preparation period for the EU membership, as well as for institution building, for socioeconomic and regional development, for employment, social policies, education, promotion of gender equality and development of human resources, for agricultural and rural development and for territorial cooperation. Considering the fact that B&H has not yet met all set conditions (institutional and legal) for using the funds (and help), there are limitations for agricultural and rural development as well as for regional and territorial cooperation.

3.2. Possibilities of using the funds from the EU Programme 2014-2020

It is basically possible to use resources from funds like COSME (projects), Europe for Citizens, Horizon 2020 and Erasmus Plus. Certain activities have been done in order to apply for the funds, however, there are no guarantees that they will officially be available, or that preconditions for them will be fulfilled. Among other EU 2014-2020 programmes there are guarantees that they will be available after the Ministry of civil affairs of B&H shows interest for the funds and after appropriate proceedings have been conducted.

3.3. Evaluation of possibilities for B&H

Real possibilities that B&H has can be revealed by the fact that prior to the signature of SAA between B&H and the EU in 2008, there had been negotiations starting from 2005. The SAA has not yet come into force because B&H has not fulfilled all the set conditions. B&H signed and ratified the agreement but has not implemented it, nor the court decision by the European Court for Human Rights in Strasbourg, and other conditions have not been met.³ In the report on progress⁴ it is concluded that there is an evident stagnation and delay in B&H's way towards the EU, that European intercession has always been present and has never been questioned, the rapporteur for B&H, Doris Pak, determines that „it is impossible to help those who do not want to be helped, the main problem is the lack of will and cooperation between political leaders in B&H“, and furthermore adds: „I cannot predict any changes in the future, I have recommended to European institutions and the Commission to make the leaders

³ Earlier conditions were changed by the latest EU initiative resulting in the signature of a Statement by BH officials and politicians (in December 2014) on EU accession and its adoption in BiH Parliament (end of February 2015), and new conditions were set which should be fulfilled in the first half of 2015. After that the SAA should come into force (the court decision by the European Court for Human Rights in Strasbourg should also be implemented)

⁴ The European Commission publishes regular annual reports on the progress of each candidate country or potential candidate country

realize this and do what they must do. They come to Brussels, sign an agreement, and go home and nothing happens“. She also states that there has been a strong impression that the politicians in B&H do not want to work towards the EU and they seem like they „do not care for their people as much as they do for their pockets“. ⁵

4. STATE MANAGEMENT

Having government authorities on the state level, two entity, ten cantonal, four city and 139 municipal governments, B&H is in a group of countries that have large state administration, and it is possible it is the leading country in that country group. There are 184 148 employed people in state, entity, county and local governments and in the Brčko District, which, when compared to the total number of employed (685 294), means that every third person in B&H works in a government or its administration. ⁶ The same sources show that in the FB&H government (not including ministries) there are 94 workers, and 15 ministries (they employ from 36 to 260 people) employ 1 000 people, which means that 1094 workers are financed from the budget and their salaries amount to about 216 million a year.

The administration in ten counties, companies and institutions that are financed from county budgets hire at least 50 000 people, and in the Republic of Srpska 73 550 people work in the public sector (from the total number of 239 986 of the employed). Besides this, it is estimated that among 78 boroughs in B&H, in 61 boroughs in RS and city councils and offices of the Brčko District, Sarajevo, Banja Luka and Mostar, as well as in „accompanying“ municipal administrative institutions, there are at least another 10 000 employed people. MMF estimates that total earmarks for the public sector in 2013 equalled 3, 312 billion KM for salaries and benefits, and 2, 833 billion for material expenses, that is, 6, 145 billion KM in total or 23% of the GDP, while subventions for public companies amount to about 400 million KM ⁷ a year.

It is especially worrying (according to the same source) that since 2008, 37 182 people have lost their jobs in the economy domain, and there have been 15 690 new employments in the sectors of government, social security, education, health care and others (which are financed from the budget and non-budget funds). According to the research done by MMF it can be concluded that private companies do business more successfully than the state-owned companies, that $\frac{3}{4}$ of state-owned companies operate at a loss, whereas only $\frac{1}{4}$ of private companies operate at a loss, that the public sector is huge ⁸, larger and even more significant

⁵ <http://www.dw.de/bih-pet-godina-sporazuma-o-stabilizaciji-i-pridru%C5%BEivanju-eu/a-16884829>

⁶ <http://www.vecernji.ba/svaki-treci-zaposlenik-u-bih-radi-u-javnoj-upravi-954862>

⁷ <http://radiosarajevo.ba/novost/161413/svaki-treci-zaposlenik-u-bih-radi-u-javnoj-upravi>

⁸ Among 284 large companies in F BiH, none of them have been privatized, and the situation is the same in the Republic of Srpska

than the private sector (which is the opposite of the concept of market economy where private ownership has a dominant role), that public (state) sector reduces development possibilities of the private sector, that salaries in the public sector are higher than in the private, that all of this attracts young and competent people who see greater opportunities in the public sector, politics or political parties rather than in the private sector or entrepreneurship, which will cause an even worse negative effect on economic development.⁹

The efficiency of state management cannot be considered positive even when it comes to privatization, which is not being realized because it does not suit political parties. However, it is known that such companies cannot survive on the market economy, that except some of the companies that must stay public, others must be privatized. These companies cannot operate or survive without money, while creditors will not finance them unless the ownership structure is defined. Otherwise, the companies will fail and can only survive in this way¹⁰ if they are financially supported by the budget and taxpayers, but these resources are not unlimited and will not be available for a long time. Privatization is mentioned only when they are forced to ensure financial resources in budgets (“to sew the budget holes”) or when they have other (personal or partisan) motives, however, privatization is almost never mentioned as a necessity because non-privatized companies slow down the establishment of market economy with the dominance of private ownership as well as economic development.

They behave in the same way when it comes to the EU accession. According to the research results in areas mostly populated with Croats, 63% of them support B&H accession to the EU, 18% stated they do not wish that (because Croatia’s accession to the EU has not led to the increase of standard of living, because the situations in Greece and Slovenia are not favourable, as well as in some other member countries), 19% said they “did not know”. In areas mostly populated by Bosniaks, 47% are pro-European, 37% are indecisive, and 26% are against the accession (most of those are “for some other options”). In areas with mostly Serbian population only 19% supported the accession, 36%¹¹ were against it, a 46% did not state their opinion. Regardless of public support for the accession by all government officials (politicians) among all constituent peoples, research shows the opposite. Almost every third (32%) politician stated they did not support the accession with the following explanations: “it is not still the time for that”, “B&H is not ready”, “there are other options”, “we need to wait and see what happens to the EU” and similar.¹² So it could be concluded that

⁹ <https://renesansa.wordpress.com/2014/10/16/struktura-zaposlenih-je-mozda-najveci-problem-bosne-i-hercegovine/>

¹⁰ Mostly under state ownership, but they are not public

¹¹ Most respondents among these 36% prefer stronger relations with Russia, and the others are against it because NATO bombed areas with Bosnian Serbs (1995) and Serbia (1999)

¹² According to the research results, politicians publicly and formally support EU accession because they assume it suits the citizens and because they do not want to be criticized by the International Community, but in reality they are against the succession for personal reasons (because of the

politicians are only formally pro-European, and in reality they do everything so B&H would not join the EU or to keep the present situation for as long as they can because it suits them (on a personal or partisan level). This is the only way to explain the reasons why conditions for the SAA enforcement are not being fulfilled, why legal acts which are in accordance with European acts have not come into force, while legal acts (on public procurement and criminal law¹³) which do not include recommendations by the EU representatives and other international authorities and institutions (Moneyvala¹⁴) have come into force.

5. CORPORATE MANAGEMENT

Regarding the ownership structure, there are mostly private companies and the fewest public companies. Between these two groups there is a reasonably large number of companies that have a special status. Officially, they are state-owned (in the former system they were social) and should be privatized or become public. Also, there are companies under mixed (state and private) ownership. In accordance with this, positions and capabilities of management differ as well as their influence on business, and especially their strategic decisions and future business operations.

5.1. Management in private companies

There is a reasonably small number of private companies from the former political system, fewer privatized companies in the process of so called small privatization and a great number of newly established private companies. These new companies are numerous and make up 90% of all companies, but they participate in GDP and employment by less than 50%. From the total number of these companies, 19% operate in the production or production-service industry, the rest of the companies are in the commercial business, gastronomy and others. According to the total income and profit it can be concluded that there is a small number of large (wealthy) companies and the greatest number of small (poor) companies that barely “survive” and have uncertain future.

Management in large companies act logically, rationally and is market-oriented. The management use market possibilities to earn money quickly and easily, they implement strategies of “milking” and “draining” the profit under conditions set by market and economic environment. They do not miss out on opportunities to make profit when they think it is not illegal (83% respondents),

acquired wealth or other reasons) and because they do not want to implement EU regulations and practice, and they try to postpone their implementation as longer as possible

¹³ The criminal law, which has not yet been enforced, that led to BiH not fulfilling conditions for avoiding the “black list” of financial transactions from abroad (and within the country)

¹⁴ Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

and some respondents stated that their first capital was gained by not settling their liabilities (21%), while 32% of them think they should have paid more, but that they did not pay “because nobody forced them to do it” (42%) and that because of it they do not feel guilty “having invested in their capacities and human resources” (63%).

Almost a third of private companies (32%) implements the strategy of “survival” (survival on the market), even if they must avoid paying taxes or must conduct illegal employment, and 57% declared that their main profit are “uncovered liabilities”, that is, “it would not pay off to work” (49%) and they would be at a loss if they had to pay all their liabilities.

The small number of wealthy companies are seen in a negative¹⁵ context connected to abuses and economic crime. According to the research results, the management in these companies are not satisfied with the economic climate (88% of respondents), and only 12% stated the climate was good and that it suited them. More than 60% stated that they had clear visions about the future of their companies and development programmes, that they had access to human resources and other potentials for using pre-accession funds, that they had prepared projects for using the funds (73%) and they waited for the funds to be available to use. Some managers in the larger (wealthier) companies do not even think about the future, 11% think they “will not have the need to work in the future”, and the most important issue for the smaller (poor) companies is “how to survive day by day” (54% of respondents).

5.2. Management in non-privatized companies

The situation in state-owned companies (former social companies) is not satisfactory. From the total number of 1 234 non-privatized companies with the estimated worth of 19, 3 billion \$, 84 of them have 60% of the total estimated value of non-privatized companies. Some companies are not even active or they operate with small capacities, many of them were destroyed in the war, and some (even those not destroyed in the war) have not even started to operate because they are not adjusted to the market economy. For their business operations and development they need financial resources, they cannot find them (except for public companies) nor will they be able to unless they are privatized. However, privatization has not started due to political reasons, or there have been cases where it has started but privatization process did not suit employees (93% respondents) nor the public (97% respondents). The procrastination of privatization leads to property deterioration, it prevents employment, reduces

¹⁵ There are negative connotations because of tax avoidance, illegal employment, the connection with non-privatized companies and government bodies where state (public) capital is transferred to private accounts, and consequently making large companies even wealthier and enabling smaller ones only to survive

property value¹⁶ and loses market positions in the area where they existed, and all of this will have negative effects on the future business.

In these companies, the management hold a special position and status. For them, the present situation is not durable (63%) and must be changed. Possible solutions are to re-register and become public (76% of respondents) because it is “the safest way to pay salaries and maintain present level of employment”, or to be privatized (24%), which they do not consider a good solution from the point of view of employees because that would jeopardize their income would result in fewer employments. The management cannot be independent in making decisions because it is under strong political influence by officials in government bodies who appoint them, as well as under supervisory boards through which they realize their (partisan) interests and goals.¹⁷ Objectively, the management cannot do much to increase business success, and have no responsibility¹⁸ for that except the moral one, if they do not abuse their position and power. They can hold their current positions only in exceptional cases because otherwise they will be replaced by new owners.

Their role is limited only to a transition period, and consequently, they cannot have greater influence on business strategy after privatization process because someone else will deal with that. They do not have any plans or programmes for using EU funds, and their public image is very negative. They are being resented for not doing business successfully, for not stepping up the production and increasing employment rates, and a significant number of respondents (49%) believe that management in these companies seek for reasons to postpone privatization in order not to lose their positions and jobs. If they engage in privatization planning, they are accused of personal gain (32% respondents), and when they do not do it, once again they are resented for affecting price cut which could benefit themselves and the new owners (23% respondents), or they are accused of maintaining the “status quo” because it suits them (41% respondents).

5.3. Management in public companies

The group of public companies consists of a greater number of small (community interest companies) and medium-sized companies, and a smaller number of large (strategic) companies. They belong to different business domains including post office, telecommunication services, electric power industry,

¹⁶ Which suits future owners

¹⁷ Employments are based on partisanship regardless of business results and successes, even when business is done at a loss because the loss is compensated by the budget (public) means. Employees are not let go even when they are redundant (to protect election votes). A special problem is that in such companies, through public procurement, one can “extract” (and do money laundering) money for various purposes, political parties and activities connected to corruption and other negativities listed in the progress reports

¹⁸ They are answerable to the supervisory board appointed by the government (politicians)

railway, roads and others, as well as companies that exploit natural resources such as mines, forests, minerals, raw materials, land and other. Large public companies mostly do business successfully thanks to the monopoly they hold and to the greatest capital and assets at their disposal.

According to the research results, these companies have surplus employees (from 15% to 35%) and with every new government (parliamentary parties) the management in these companies change and significantly increase the number of employed people. Business success is “disguised” by high (monopoly) prices approved by government authorities and by investment into infrastructure and other objects. This demands enormous budget resources (non-transparent¹⁹) and resources from international, banking and other sources with appropriate warranties from the government. Because of their position (and significance) they have a special (non-market) treatment so the accusations towards the management in these companies are likewise directed towards the cooperation with private companies and government authorities, the cooperation exists in order to finance projects that are not in the social or public interest (41% of respondents). The criteria for the selection and appointment of managers in these companies are not competence and capability, but partisanship (84%).

Their success is measured and evaluated by partisan criteria (their obedience and loyalty to the party) and not by how much they work in the interest of public and society in general. That is why, from the social point of view, any measure should be taken in order to depoliticize and professionalize the management, so that they could operate with a minimal number of competent and qualified staff with appropriate salaries (salaries not being higher than in the private sector) in the interest of the public by making the fewest costs and operate with prices which would protect citizen interests the most.

5.4. Management in companies under mixed ownership

The group of companies under mixed ownership is the smallest and consists of a smaller number of (recapitalized) companies that used to be state-owned, i.e. social, and in which private capital has been invested. Some of them have a greater proportion of private capital, while others have more state capital. There are different reasons for their establishment, which are probably related to the expected privatization and to the creation of desirable positions for privatization of the remaining part under state ownership. The roles, positions and possibilities of management are not the same in the existing companies under

¹⁹ In the progress report by the European Commission there is a statement that “BiH has not taken measures to ensure competitive and transparent steps in the sector of public-private partnership, that the implementation of the new Law on public procurement must be enforced as well as the adoption of sublegal acts, that the capability in investigating criminal acts in economy, financing and public procurement is limited and there is a strong reason for introducing specialization within the police and the judiciary system in fighting against corruption”

mixed ownership, mostly private or state ownership. In companies having greater percent of private ownership, the management have additional tasks (besides regular ones) and obligations, how to gain benefits from the state-owned part, or how to privatize that part. In companies under mostly state ownership, the management have equal tasks and obligations as in state-owned companies, that is to serve in the interest of the political parties in power (86% of respondents) and “help” (“be at service to”) those who plan to privatize those companies (59%).

6. CONCLUSION

Regarding a company's structure, different positions, roles and capabilities of management in these companies, and taking research results into account, it can be concluded that in private companies and those under mixed ownership where private capital is greater, there is management competency to accept EU funds, but the resources cannot be used. It has also been shown that such competency does not exist in non-privatized companies and companies under mixed ownership which mostly have state capital. Taking this into account, one cannot expect faster and more significant economic development because companies, which are the grounds for this development, have not been given conditions for that. Private companies are not dominant and cannot significantly influence economic development, the management in non-private companies are not independent, they are under strong influence of the government, they do not support economic development and they even slow down the process. Moreover, the inefficiency of the state management supports the bad situation and even more serious backwardness. The problems lie in a slow and inefficient privatization, and therefore, the influence of those who slow down the process should be diminished. They do this in order to maintain their positions and hold power, to protect their interest in non-privatized companies and to maintain the “status quo”. The private sector should be made dominant in the economy, and the management in non-privatized companies cannot be the bearer of the development strategy. By removing the obstacle to the EU accession process, by enforcing the SAA and by beginning the EU accession negotiations, there will be preconditions and possibilities for more efficient corporate management because it will be possible to use pre-accession funds, which are still not available to economic entities. Even more positive effects will be visible in creating conditions for market economy which is momentarily euthanized by the inefficiency of the state management.

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